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SUBJ: GLOBAL CRISIS CAUSES FURTHER DAMAGE TO TURKEY'S TEXTILE SECTOR

¶11. (SBU) Summary. Turkey's textile sector - which had already been experiencing serious difficulties even before the economic crisis - is now faced with a sharp contraction in European demand. Although the yearly decline in textile and apparel sector exports in 2008 was just 0.2%, exports fell 27% in the last two months of the year. Exports dropped even more dramatically in the first two months of 2009, 32% in January, and 39% in February. GOT economic stimulus measures have largely ignored the sector except for certain incentives for producers that move their facilities to Eastern Turkey. As the sector has already suffered from competition with Chinese textiles and the over-valued TL in recent years, sector representatives warn that these new difficulties will likely lead to factory closures in 2009. Given the large numbers of people that the sector employs and its contribution to Turkish GDP, the sector feels "rejected," asking if this lack of support by the GOT is a part of a "survival of the fittest" policy. End summary.

Turkey's Textile Sector

¶12. (U) Turkey's textile sector has historically been a key engine for exports and job creation. Investments in the sector grew substantially in the 1990s, and Turkey's 1996 Customs Union with the EU provided new export opportunities for the sector. The textile and apparel sectors in Turkey comprise close to 8.0% of Turkey's GDP and the 40,000 textile-related firms are estimated to employ 2 million people (just under 10% of the entire labor force). In 2008, textiles made up 17% of Turkey's total exports. Europe is the main market for Turkish products, receiving 46.7% of textile exports and 79% of apparel exports. Turkey is the second biggest textile supplier for the EU, after China, and is the eighth largest textile exporter in the world and the fourth largest apparel exporter.

¶13. (U) Turkish textile and apparel exports amounted to \$21.88 billion in 2008, down 0.2% from \$21.9 billion in 2007. The downward trend in exports started in October 2008, with an 8.7% fall, continuing in November (25%) and December (27%). The drop was even sharper in the first two months of 2009, with a 32% fall in January and 39% in February. The Istanbul Ready-Wear and Apparel Exporters' Union (IHKIB) announced on April 13 that they expected a 30% fall in Turkey's apparel exports in 2009. IHKIB also noted the sharp fall in textile and apparel production in the first two months of 2009, with textile manufacturing down 10.6% and apparel manufacturing 12.1% during this period, compared to a 1.8% fall in overall manufacturing. Following a meeting among sector representatives in early April, Aegean Ready-Wear and Apparel Exporters' Union President Jak Eskinazi announced that 180,000 people in the industry had lost their jobs since the beginning of 2009.

Textile Exporters: Our Crisis Started Earlier

¶ 14. (SBU) Commenting on the impact of the global crisis on the Turkish textile sector, Istanbul Textile Exporters' Association (ITKIB) Agreements Department Head Zuhal Bilek said the crisis in the textile sector started much earlier. Bilek noted the significant challenges the sector had faced in recent years, due to increased production costs and an overvalued lira, both of which dramatically reduced Turkish producers' competitiveness at the same time that new rivals such as China were entering into Turkey's traditional markets. As a result, Turkey had been gradually losing market share for several years and its textile production had begun to decline sharply as early as February 2008, well before the onset of the global crisis.

¶ 15. (SBU) Bilek commented that the sector went through a necessary but painful restructuring over the past 15 years, bringing its production standards in line with EU preferences. The sector's geographic proximity to the European market and its flexible structure (able to respond rapidly to smaller orders) have helped Turkey keep its position as the second biggest supplier to Europe, according to Bilek, despite the negative domestic market conditions and increasing competition from East Asia. With the shrinkage in European demand, however, the sector is hurting, Bilek observed, and there is not much room left for the sector to adjust itself to the new market conditions.

¶ 16. (SBU) Bilek acknowledged that the TL's decline against the dollar and euro in late 2008 will eventually help increase exports, but due to the long order timeframes typical in the sector the positive effects have not yet been fully realized. As with most other products, the collapse of demand has also offset the gains that would normally be expected from the currency's depreciation.

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¶ 17. (SBU) Sabri Unluturk, Aegean Textile Exporters' Union Chairman, echoed Bilek's complaints. Elaborating on the increased production costs, Unluturk said the TL-based costs, like energy and labor, doubled over the past five years, whereas the FX rate remained unchanged. "We have been going through a serious restructuring and transformation since 2002 and as a result have increased our productivity by 40%," said Unluturk. Only companies able to complete this restructuring were able to survive and remain competitive, according to Unluturk, and a number of firms closed as a result. Unluturk noted that all companies had to settle for lower profit margins in this new, more competitive environment and that the sector has invested heavily (and continues to invest) in technology and human capital. Unluturk said these factors made it more difficult for Turkish textile producers to deal with the global crisis. "We were already operating on such tight profit margins and having difficulty finding financing when the global crisis broke," complained Unluturk. (Note: Most textile firms in Turkey are SMEs, increasing the difficulty of finding credit and trade financing when banks are loaning only to the safest of borrowers. End Note.)

The GOT Response: "Leave Textiles Production to China"

¶ 18. (SBU) Since the beginning of this year, the GOT has announced a number of economic stimulus packages to minimize the impact of the global economic crisis. In its first package in February 2009, the GOT announced the extension of tax discounts for textile and apparel producers employing more than 50 people, as long as they move facilities to certain specified provinces, mostly in underdeveloped Eastern Turkey. In subsequent packages, the GOT announced VAT reductions for the automotive, electronics, household goods and furniture sectors, but there was no additional support for the textile and apparel sector.

¶ 19. (SBU) Bilek said the textile producers were frustrated with the GOT package, because they do not think the tax advantages justify the cost of moving their facilities and workers to less developed areas, especially as these regions may not possess the necessary support infrastructure. Bilek noted Treasury Minister Mehmet Simsek's comments from July 2007, where he said Turkey should leave

low value-added textile production to the Chinese. "At that time, we decided that the GOT had let go of our sector," said Bilek. Bilek argued that sector representatives had made numerous suggestions to the GOT on helpful measures to mitigate the global crisis - such as reductions in social security premiums, lowered energy prices, eased payments for delayed taxes and the use of unemployment fund proceeds in employment creation - but none of these measures were included in the packages.

¶10. (SBU) Unluturk suggested that the GOT's abandonment of the textile sector was the reflection of an unspoken policy, based on "the survival of the fittest." According to Unluturk, that the GOT announced specific measures even for a relatively unimportant sector such as furniture and did nothing for textiles is meaningful, and is hard to understand given the large numbers of people that work in textiles. He dismissed a proposed GOT plan to expand exports to new markets during the crisis, since those markets - many of them "closed" economies like Syria and Iraq - are Turkey's competitors in textiles and the high-end Turkish products destined for the European market would not sell as well in low income countries. Unluturk stressed the importance of the market share Turkey had achieved in Europe and Russia after years of hard work, and said the sector would fight to survive 2009 despite the GOT's lack of support. "We already lost several facilities to the crisis, and we know there will be more losses this year," said Unluturk.

¶11. (SBU) In a public statement on April 13, IHKIB President Tanriverdi criticized the GOT for not announcing any specific measures for the textile and apparel sectors during the crisis. Tanriverdi reiterated the sector's demands for tax and social security premium relief, and suggested that the GOT meet 50% of export insurance premiums for textile exporters. Tanriverdi also noted the impact of the overvalued lira on exports and said: "Our survival limits in exchange rates are 1.60 in USD/TL and 2.15 in EUR/TL. The Central Bank should intervene if these levels change to disadvantage Turkish exporters."

Comment

¶12. (SBU) The textile sector does have some legitimate complaints

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about GOT policies that unnecessarily increase production costs (such as high taxation of inputs and relatively high social security contribution requirements) and it may eventually succeed in convincing the GOT to reduce those costs. At the same time, the sector's problems are not temporary blips - the decline in competitiveness predates the crisis and will not instantly disappear when the crisis is over. Given that textiles employ over 2 million people, it is unlikely that the GOT will allow the sector to collapse completely, especially in light of the January 2009 increase in unemployment to 15.5%. The GOT's focus on other sectors may indicate a realization, however, that the golden age of Turkey's textile sector has probably ended, and that a painful but necessary adjustment to a smaller sector is inevitable. End comment.

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